

Agenda Date: September 13, 2006  
Item Number: A1

**Docket:** **UT-061291**  
**Company Name:** United Telephone Company of the Northwest

Staff: Betty Erdahl, Regulatory Analyst

### **Recommendation**

Issue a Complaint and Order Suspending Tariff Revisions in Docket UT-061291 and set the matter for hearing.

### **Background**

On August 10, 2006, in Docket UT-061291, United Telephone Company of the Northwest (United) filed a proposed tariff revision to introduce its “Standard Home Phone II” bundle in Washington State with an effective date of September 14, 2006. This bundle for residential customers includes a flat-rated line and 10 features for \$31.95.

### **Discussion**

Most local exchange companies now actively encourage customers to choose bundled services. A typical bundle provides a customer with basic dial-tone service plus some combination of features (such as caller identification or call waiting), long-distance services, or broadband services. For example, United offers several bundles in its tariff, including one called “Core Solutions.” This bundle is priced at \$30.75 per month and includes 15 features in addition to local calling.

A comparison of the new bundle “Standard Home Phone II” and “Core Solutions” reveals that the proposed bundle offers a smaller subset of the features in the “Core Solutions” bundle, but costs more, as shown below:

		Standard Home Phone II		Core Solutions	
		Stand Alone Tariff Rate	Proposed Rate	Stand Alone Rate	Current Tariff Rate
Local Exchange Service		9.40		9.40	
1	Caller ID with Name and Number	7.50		7.50	
	Caller ID with Name = \$5.50				
2	Anonymous Call Rejection	0.00		0.00	
3	Call Waiting	3.00		3.00	
	Call Waiting ID = free offered to call waiting				
4	customers	0.00		0.00	
5	Three-way Calling	2.50		2.50	
6	Call Forwarding	2.00		2.00	
7	Repeat Dial	3.00		3.00	
8	Return Call	3.50		3.50	
9	Selective Call Forwarding	3.00		3.00	
10	Speed Calling 8	2.00		2.00	
11	Call Forward No Answer – Fixed			0.75	
12	Call Forward Busy – Fixed			0.75	
13	Selective Call Acceptance			5.00	
14	Selective Call Ring			3.00	
15	Selective Call Rejection			3.50	
	Total	35.90	<b>\$31.95</b>	48.90	<b>\$30.75</b>

United's proposed bundle raises a number of concerns:

Fair, just reasonable and sufficient rates: [RCW 80.36.80](#) requires that all rates charged be fair, just, reasonable and sufficient. The rates currently in tariff are presumed to be fair, just, reasonable and sufficient, but a rate increase is typically scrutinized and must be justified. As the comparison above shows, the present bundle represents a price increase for the component services. United has not presented evidence to support a conclusion that this increase is fair, just and reasonable, compared to the existing "Core Solutions" bundle.

Incentive to market unfairly: The tariff filing in this docket does not cancel, modify or grandfather the existing "Core Solutions" bundle; if the tariff enters into effect, both bundles will be available for purchase from the tariff unless and until one or the other is removed. Arguably, a consumer would be able to choose between the two bundles, just as a consumer is free to choose basic calling and individual features. Generally we tend to assume that a consumer in full possession of the facts and of her faculties will not choose to pay more for less service. However, the proposed offering creates an incentive for selective and potentially unfair marketing – the company would make more money and incur less expense if it markets the more expensive bundle in preference to the existing, cheaper bundle that includes the same services.

Undue discrimination: RCW [80.36.170](#) prohibits telecommunications companies from engaging in undue discrimination in their provision of regulated services. In the present case, a new customer ordering the proposed “Standard Home Phone II” would pay a higher price for a subset of the same services than if the customer chose the existing “Core Solutions” bundle.

A contrary view can also be supported:

Consumers need not be protected from bad choices: if a consumer is offered a choice between two substantially similar services and chooses to pay more, regulators should arguably refrain from interfering.

The very complexity or breadth of the existing bundle could arguably decrease its value to consumers: the company’s marketing study apparently suggests that the proposed bundle will appeal to consumers as an alternative to the existing larger bundle.

Popularity is not a requirement for maintaining an item in tariff: the company undoubtedly has items in tariff that do not sell well due to consumer preference for alternatives. Nevertheless, the commission has allowed these items to remain in tariff for those consumers who wish to buy them.

### **Options:**

Complain, suspend and set for hearing: complain based on the issues raised above, suspend the tariff revision and set for a full hearing to develop a record. This option protects consumers at the price of significant intervention and transaction cost.

Set for hearing without suspending: allow the revision to enter into effect but set for hearing to develop a record. This could be less expensive to process, and would probably produce a fuller record, but would not protect consumers as fully.

Open a formal investigation under [RCW 80.36.145](#): as an alternative to a formal hearing process, open an investigation; this option would be quicker, does not result in a hearing, and allows for more thorough study of the actual effects, but does not protect consumers during the investigation period, and is an unusual process for this industry.

Staff recommends that this tariff revision be suspended and set for hearing.

### **Conclusion**

Issue a Complaint and Order Suspending Tariff Revisions in Docket UT-061291 and set the matter for hearing.